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HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

AUTUMN 2004

2005 at a Glance

- *Victoria's housing markets continue strong*
- *Resale market sales level off, prices rise*
- *New homebuilding growth - both singles and multis*
- *Rental market vacancy rate to remain stable*
- *New home market prices on rise*
- *Fewer lot sales but prices escalate*

RESALE MARKET

Prices continue uptrend

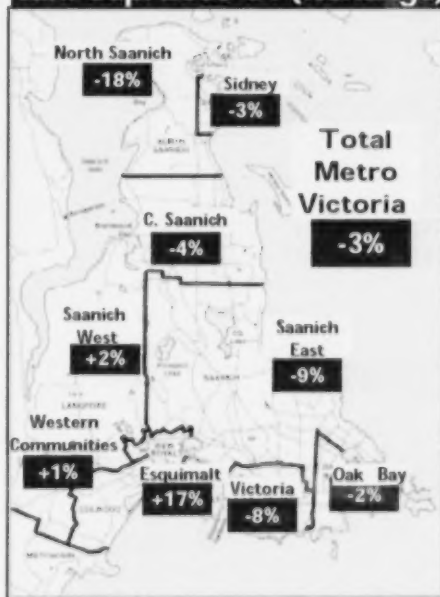
MLS®¹ average prices are forecast to rise further next year, following strong increases for 2004. For 2005, average prices are forecast at \$378,000 for houses, \$296,000 for townhouses and \$198,000 for condo apartments.

The number of **2005 Victoria home sales will taper from this year's hectic pace but remain at strong levels.** In 2004, growth in condo apartment transactions is leading the expected small increase in total sales.

continued on page 2...

¹Multiple Listing Service (MLS®) is a registered certification mark owned by the Canadian Real Estate Association.

House Sales by Sub-market, Jan.-Sep. 2003-04 (%change)



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Single family home sales are forecast to fall just short of 2002-03 levels, reaching 4,390 in 2004, and 4,310 in 2005. **Condo apartment and townhouse sales reflect rising demand** for affordable homes, coming in at a forecast 1,800 apartment and 760 townhouse transactions in 2005.

Metro Victoria 2004 **single family home sales are 3% behind** last year's levels for January-September. **Esquimalt, Saanich West** and the **Western Communities** are bucking the trend to fewer house sales, as first time buyers drive sales higher in these more affordable markets. In contrast, the higher-end house markets of **North Saanich** and **Saanich East** are leading this year's downturn (see map on page 1 for details).

Next year's house sales are forecast to dip 1.8% but **Western Communities** house sales will again improve on 2004 levels. Buyers are attracted to the West Shore due to its growing number of recreational, retail, medical, educational and cultural amenities, as well as its affordable house prices.

Average single family house prices will rise 12.8% in 2004 and a further 2.2% in 2005 as demand continues strong. **Rising buyer activity** in all market segments is pushing prices higher this year.

Prices are continuing the uptrend first noted in early 2001 when demand for homes began to escalate. By mid 2004 more listings came on to the market, easing the undersupply and resulting in **loss upward pressure on prices**.

Single family home listings were up 30% in September 2004 from 2003's level, easing the strong upward price pressure experienced

earlier this year. Low interest rates and strong employment growth are keeping market demand buoyant and the market continues to favour sellers.

Year-to-date 2004 figures show this spring's exceptional sales-to-active listings ratio (58%) for single family homes has now returned to 45%. Houses are taking an average of 38 days to sell, similar to 39 last year. Year-to-date, the average sale price is up 19%. These figures indicate the **single family house market currently favours sellers**, and is not forecast to return to balanced conditions until mid 2005.

MLS® House Sales by Market

3rd Quarter 2004, Metro Victoria

	Average House Price	Average Days to Sell	Average Size Sq. Ft.
Victoria City	\$359,088	52	1,830
Oak Bay	\$580,963	30	2,323
Esquimalt	\$315,044	26	1,709
Saanich East	\$421,289	31	2,387
Saanich West	\$351,993	33	1,927
Central Saanich	\$409,508	24	2,103
North Saanich	\$694,849	40	2,904
Sidney	\$343,256	27	1,818
Western Communities	\$340,250	27	2,175

Source: Victoria Real Estate Board, CMHC Victoria

ESQUIMALT HOUSES MOST AFFORDABLE IN REGION

Esquimalt was again the **least expensive house market** in Metro Victoria during third quarter 2004, with an average house price of \$315,044.

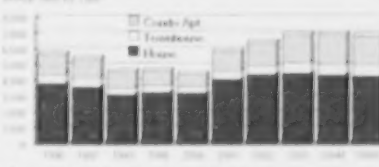
Sidney and the **Western Communities** were also less expensive than other areas, at \$340,250-\$343,256. **Saanich West** and **Victoria City** were the only others with average prices under \$400,000.

Oak Bay and **North Saanich** continued to lead the **trade-up market**, with average prices of \$580,963 and \$694,849. **Saanich East** and **Central Saanich** both saw averages rise above \$400,000.

MLS® SALES

METRO VICTORIA

Month Year to Date



Source: Victoria Real Estate Board, CMHC Victoria

CONDO MARKETS HEAT UP

Metro Victoria's **townhouse and apartment condominium sales increases** will outshine single detached sales performance in 2004-5. These markets also favour sellers, and prices are rising quickly.

Average townhouse prices are forecast to approach \$300,000 next year. The market has favoured sellers since mid 2002, following four years of buyers' market conditions. During January-September 2004, townhouse sales slipped 3%, active listings rose 15%, and average prices surged ahead by 22%. A small number of listings and steady demand is putting **strong upward pressure on prices**.

Apartment condo prices are approaching \$200,000 in 2004-05 due in part to large volumes of new suite presales. The following market indicators confirmed a **sellers' market for apartment condos** during January-September 2004: sales jumped 12%, active listings rose 58%, and average

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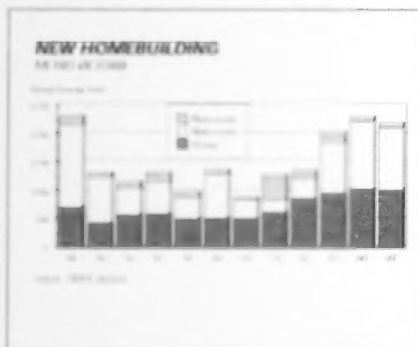
NEW HOME MARKET

HOMEBUILDING ON RISE

New homebuilding will outperform 2003's strong results in both 2004 and 2005, improving on the recovery begun in 2001-02. **Single detached houses and apartment condos will continue to lead Victoria's new home markets**, as they have since 2001 when rental construction surged ahead briefly.

Move-up and move-down buyers will remain major players in the new home market through 2005 as equity growth in their current homes improves with the strong resale market. **First-time buyers will be only slightly less active** in response to rising interest rates and prices, as the selection of new condos and affordable houses expands. **Investors account for the third major buyer segment**, attracted by rising real estate prices and strong rental demand.

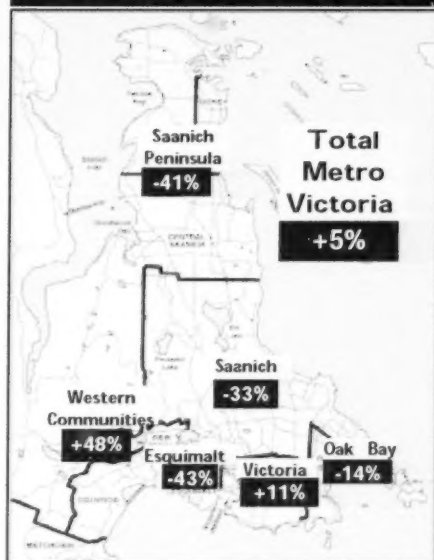
CMHC forecasts **2,280 new home starts for Metro Victoria during 2004 and 2,165 in 2005**. The Capital Region's rising levels of construction are in line with B.C. homebuilding growth.



NEW HOUSE DEMAND RISING

Single detached house starts are expected to **exceed 1,000 units annually in 2004-05** as strong buyer demand continues. New housebuilding activity is now double levels recorded in 1998-2000.

New Housing Starts, Jan.-Sep. 2003-04 (%chg.)



Single detached housebuilding is 13% ahead of last year's pace for the Jan.-Sept. period. Demand for new houses continues to be driven by **strong resale market sales, high consumer confidence, solid employment growth, rising prices and low interest rates**.

New house supply and demand will stay in step through 2005, **keeping the market balanced**. The speculative house market remains small but its slow expansion will drive a **slight rise in inventories**. Most new houses are presold before finishing, keeping the market in balance. **High lot costs, growing development fees and escalating insurance and building supply costs** continue to challenge homebuilders.

Western Communities markets will solidify their role as Metro Victoria's **largest new house market**, taking 58% of the total (up from 54% in 2003). **Saanich** is the strongest single municipality, with close to one-quarter of new Metro Victoria housebuilding, followed by

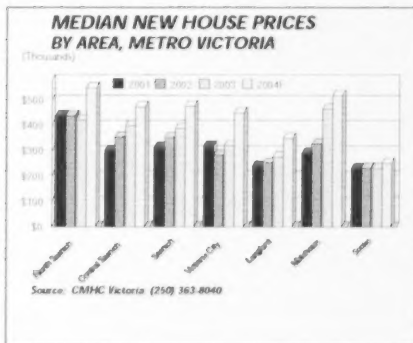
Langford, with one-fifth. **Sooke, View Royal, Langford, Colwood**, and **Saanich** will dominate the region's new subdivision development through 2008.

NEW HOUSE PRICES JUMP

Strong demand and higher building costs are **driving new house prices up**. Median new house prices are forecast to rise 14% in 2004 and a further 4% in 2005.

New homebuyers will have a **broad selection of new houses through 2005**. Price-sensitive homebuyers will find new houses on affordable suburban lots: the market for these modest homes is **helping to hold price increases back** despite rising costs.

Higher-end new houses are located in **Saanich, North Saanich, Oak Bay** and on large properties in the **Western Communities** while select subdivisions in **View Royal, Langford, Colwood** and **Sooke** attract affordable new house building.



Prices for 1½ storey houses will shoot ahead in 2004, with a forecast median of \$375,000 from \$339,000 in 2003. **New two storey houses**, which account for two-thirds of the 2004 market, **will hit a median of \$405,000**. One storey prices are expected to **edge down this year**: half will be priced under \$295,000, compared with \$309,000 in 2003.

continued on page 4...

NEW TOWNHOUSE MARKET UNDERSUPPLIED IN 2004-05

New townhouse starts are forecast at triple 2001's level in 2004-05, but construction has cooled from 2003's blistering pace. Over the next two years, starts are forecast at 145-165 annually; in 2003, 206 new townhouses broke ground.

During the first nine months of 2004, **83 townhouses got underway**, half the 166 started during the same period in 2003. At September 2004, just **7 newly completed townhomes were available for sale**, also half last year's level.

New townhouse **projects continue to be held back by high land prices** caused by a **shortage of suitably zoned and serviced sites**. Market share of **family-oriented townhouses**, containing three or more bedrooms, is growing. This year, **market share of three bedroom units** is forecast to exceed 60%, up from 56% in 2003, 47% in 2002 and 42% in 2001.

In 2004, median **prices are forecast to jump 24% to \$320,000 for a new three bedroom townhouse**, pushed higher by strong sales and limited supply of new units. The 2005 price increase is forecast at 2.5%.

NEW APARTMENT CONDO MARKET ESCALATES

On the heels of a fivefold increase in condo apartment starts posted last year, both **2004 and 2005 starts will exceed 2003 levels**. In contrast, **few new rental projects will break ground through 2005** as some investor-owned condos trickle on to the rental market.

Metro Victoria inventories remain low this autumn, with just 15 new apartment condos completed and for sale at September 2004. **The**

market is considered balanced due to the large number of units (818 at September 2004) under construction. However, about 75% of these units are pre-sold, reflecting strong market demand.

During the first nine months of 2004, **232 apartment condos completed and 237 sold** which reduced inventories further from already-low levels. Strong demand for **luxury condos, trendy downtown units and modest suburban** suites is driving sales.

This year's **hot price points are \$140-160,000 for one bedroom suites and \$220-240,000 for two bedroom units**. This contrast with 2003's most popular price range for both one and two bedroom suites of \$140-\$180,000.

Last year's shift away from luxury suites, which were popular in 2001-02, caused the median price to drop. **Prices are forecast to trend up through 2005**. Condos in prime locations (waterfront or waterview)

in downtown Victoria City will push prices higher in the coming months.

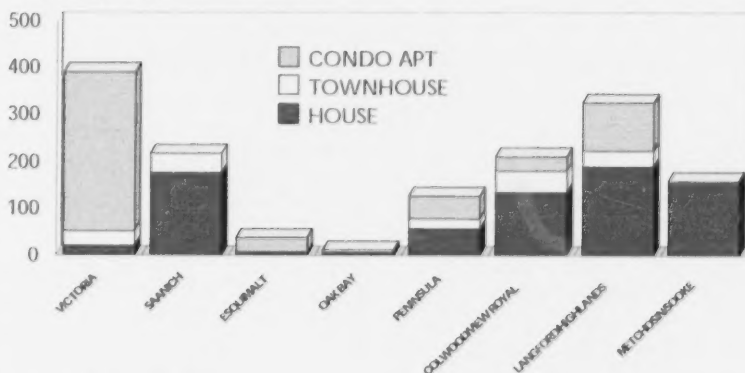
Median prices will be tempered by variations in product mix during 2004-05: a moderate proportion of luxury vs. affordable or midrange suites is expected. Median new **apartment condo prices will rise to \$275,000 in 2004 and \$280,000 in 2005**.

A diverse selection of prices, styles and locations will be available to satisfy a variety of new condo buyers. **Demand for luxury suites will remain strong while demand for mid-range and affordable units in convenient locations will expand in 2005**.

Most 2004-05 condos will be built on **Victoria City redevelopment sites**, while others will get underway in **Sidney, Central Saanich, Esquimalt, Saanich and the Western Communities**. **Langford** is expected to dominate West Shore markets in condo building. ❖

NEW HOUSING STARTS BY TYPE BY AREA, METRO VICTORIA

January-September 2004



Source: CMHC Victoria

West Shore markets lead 2004 homebuilding in Metro Victoria.

Land Prices Rising, Sales Down

Single family lot **prices are achieving new highs this year** in Metro Victoria, although fewer lots are selling. Lot **sales are strongest in the Western Communities**, but are declining in other Metro Victoria areas due to supply constraints.

The median price for serviced lots in the six months ended September 2004 included **\$300,000 in Saanich, \$229,900 in North Saanich, \$210,500 in Central Saanich, \$164,000 in Langford, \$190,000 in Colwood and \$201,000 in Metchosin.**

Sales of Metro Victoria **multiple land sites** remain slow, as few **new townhouse and apartment projects** get underway on land which has recently sold. Land prices per unit in 2004 range from

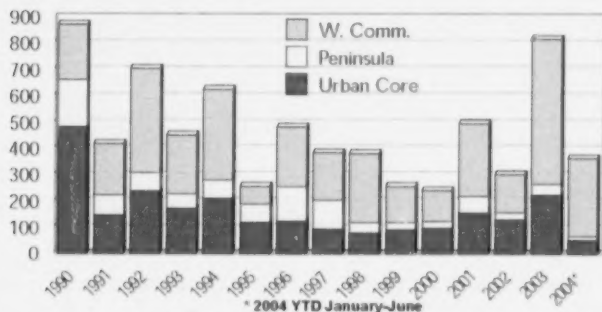
\$35-55,000 for apartments to \$55-95,000 for townhouses.

Single family dwelling **land supply jumped in 2003** (see chart below) with additional lots created in the Capital Region; more new lots are expected to come on stream through 2005. The largest share of new single detached lots is located in the **Western Communities.**

The ongoing **land shortage**, combined with rising construction costs will **erode housing affordability through 2005.** Housebuilding is growing in 2004-05, and the region-wide lot supply constraint **is pushing lot prices higher.** New subdivisions in **Sooke, Langford, Colwood and View Royal** will improve lot supply through 2005. ❖

HOUSE LOT CREATION BY AREA, METRO VICTORIA

Lots Created for New Houses



Graph: CMHC Victoria Data: CRD Development Review

B.C. RENTAL MARKET TRENDS

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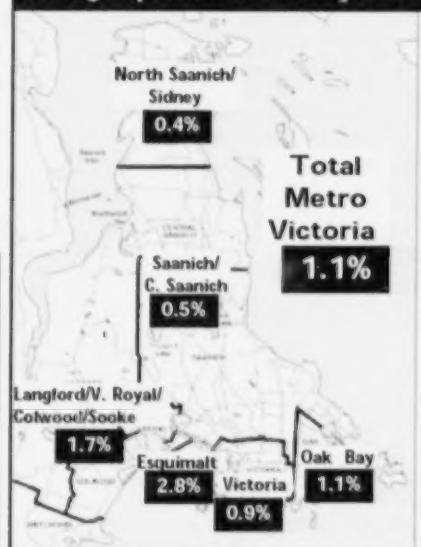
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Vacancy rate Stable

Rental apartment vacancies are expected to remain low through 2005. This year, vacancy rates are expected to edge down to 0.8% from 1.1% reported in 2003. Average rent **increases will exceed 3% annually**, overtaking the inflation rate. Limited choice of **rental apartments** will be available in most Metro Victoria submarkets through 2005. Low vacancies and rising rents will also apply to the **rental townhouse market** in 2004-05.

Market rental construction will remain a small part of new multi-family projects in 2004-05. **Ongoing barriers to rental development** include high land costs, municipal DCC's, weak industry response to municipal incentives for affordable housing, and limited non-profit financing from government. Investors find these impediments render new rental development **unviable**, thus will pursue other opportunities such as **mixed-use, niche market, condo, or commercial projects.**

Victoria Rental Market, 2003 Average Apartment Vacancy Rates



ECONOMIC OVERVIEW

ECONOMIC GROWTH IMPROVING

Metro Victoria economic growth will **come in slightly better than BC's strong growth** during 2004-05. Next year's growth is expected to improve on 2004 growth patterns in both Victoria and the province.

For 2004-05, CMHC forecasts increases in provincial **economic growth, employment and net migration**. BC interprovincial migration recorded a net inflow of 2,094 last year, expected to rise to 3,000 in 2004 and 4,500 in 2005.

International migration continues at a steady pace (27-32,000 annually). Migration improvements are a catalyst to housing market expansion throughout BC.

Metro Victoria population is forecast to grow 1.1% next year, hitting 323,000. In 2005, **net migration to Victoria will rise** in concert with B.C. trends, improving to 2,500 from 2,450 in 2004.

Victoria employment growth of 3.2% is anticipated this year, followed by a further 2.9% in 2005. Employment growth is strongest in **construction, retail trade, finance, insurance and real estate**, while slow recovery will occur in **manufacturing, health care**, as well as **defense and primary industries**. Slight negative growth is expected in **public administration**.

Metro Victoria's **unemployment rate** is expected to average under 6% over the next 18 months. Unemployment lessened in spring 2004, from last year's average of 6.1%. BC unemployment will track close to 7.5% in 2004-05.

At September 2004, the **value of major capital projects** proposed, planned or under construction in Metro Victoria totalled **\$1.8 billion**,

up from \$1.4 billion last fall. Major projects **scheduled to break ground in 2004-05** include the second phase of **CRD offices, Sheraton Hotel in Langford** and **Belleville Street Terminal redevelopment**.

Developments underway with **multi-year buildouts** include **Victoria International Airport expansion, UVic Expansion, Selkirk Waterway, Bear Mountain Golf Resort, CFB Esquimalt Improvements, Sun River Estates, Cordova Bay Road** residential and industrial complex and the **Royal Bay Project**.

The Metropolitan Victoria economy will continue to expand through 2005, with the **high technology industry** (including call centres), **education and film production** playing major roles. Victoria is home to **BC's next largest technology market** after Vancouver.

Tourism is expected to maintain its strong level through 2005. A **record number of cruise ships** arrived at Ogden Point this year. **Two new hotels**, the Brentwood Bay Lodge & Spa and the Marriott, opened in '04.

Year-to-date 2004 results show the **strongest hotel occupancy rate in Victoria in five years**, reflecting Victoria tourism's emergence from the shadows of recent terrorism events, SARS, etc. Tourism Victoria expects **moderate growth in tourism revenue** for 2004-05.

MORTGAGE RATES UP IN '05

Mortgage rates will remain flat for the balance of 2004 but recommence their slow upward climb next year.

One, three, and five year closed mortgage rates will increase next year to the 4.75-6.00, 6.00-7.00 and 6.75-7.75 per cent range, respectively.

Mortgage rate discounts will continue to be offered as an important competitive instrument over the forecast horizon. ♦

HOMES LESS AFFORDABLE

Rising home prices and mortgage rates mean higher **qualifying income** for purchasing a home. In 2005, qualifying income required for purchase of average-priced houses **will shoot up to record levels, forecast at \$98,716**, from \$90,605 in 2004.

Metro Victoria homebuying qualifying income calculations are based on actual interest rates, MLS® average house prices to 2003 and CMHC forecasts for 2004-05 (see page 8 for details). ♦

Housing Affordability Partnership (HAP) is a cross-sectoral group working to highlight awareness of emerging housing issues and opportunities.

www.housingaffordability.ca

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RENOVATION MARKET

RENOVATIONS GAIN MORE STRENGTH

Metro Victoria renovations continue to rise, and next year's project volumes and average renovation values are both forecast to improve on 2004 levels.

The 2002-04 resale market rebound continues to drive renovation activity. Some buyers prefer to **purchase and make improvements** to existing housing instead of buying new homes. Rising renovation volumes since 2001 mean more construction activity. High **development and lot costs** and an **aging housing stock** are pushing renovations ahead of levels achieved in the 1990s throughout Victoria.

During the first nine months of 2004, the **number of building permits issued for residential renovations** in the **City of Victoria** edged up 2% from 2003 levels while **Saanich's** permit tally rose 15%. **Western Communities** renovation

volumes also increased 15%. These three areas account for over two-thirds of the residential renovation permits issued in all of Metro Victoria. **Oak Bay** permit volumes grew 16% while **Esquimalt** jumped 70%. **Saanich Peninsula** permit volumes were 15% ahead of 2003 levels.

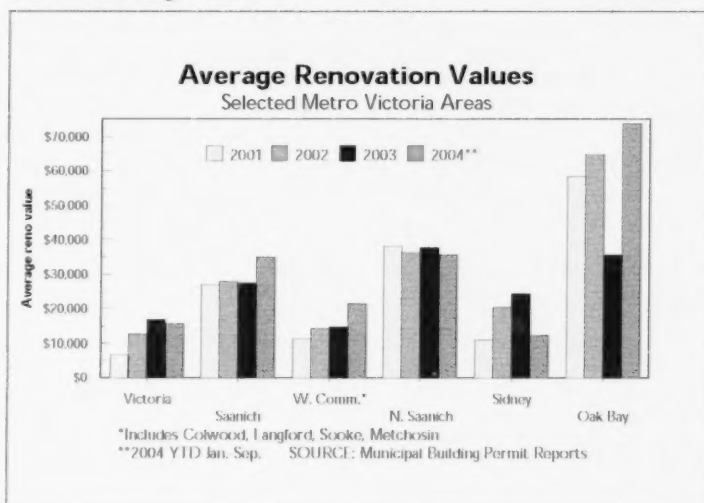
January-September 2004 Metro Victoria average renovation values **grew 3.8% from 2003 levels**. **Oak Bay** led area

markets, with average residential renovation permit values of \$73,663.

North Saanich was next highest, at \$35,717. Average permit values in **other**

area markets ranged from \$12,223 through \$35,026.

The trend to higher renovation spending reflects **more substantial projects** as well as **rising materials and labour costs**. Current homeowners and new purchasers are renovating for **home offices, secondary suites and media rooms**, as well as more traditional **kitchen, bathroom, deck, basement and attic expansions/additions**. ❖



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CMHC FORECAST SUMMARY

Victoria Metropolitan Area

October 2004

RESALE MARKET

	2002	2003	2004F	2005F	Chg
MLS® Listings	8,976	9,063	9,900	10,200	3.0%
MLS® Sales					
Single-family	4,430	4,477	4,390	4,310	-1.8%
Townhouse	584	744	720	760	5.6%
Condo Apartment	1,451	1,712	1,900	1,800	-5.3%
TOTAL	6,465	6,933	7,010	6,870	-2.0%
MLS® Price					
Single-family	\$280,218	\$328,005	\$370,000	\$378,000	2.2%
Townhouse	\$212,988	\$246,500	\$290,000	\$296,000	2.1%
Condo Apartment	\$150,547	\$183,493	\$195,000	\$198,000	1.5%

NEW HOME MARKET

Starts					
Total	1,344	2,008	2,280	2,165	-5.0%
Single-family	879	969	1040	1020	-1.9%
Semi	73	91	165	140	-15.2%
Townhouse	140	206	145	165	13.8%
Condo Apartment	127	600	885	790	-10.7%
Rental	125	142	45	50	11.1%
Complete & unoccupied (monthly average)					
Total	119	106	98	155	58.2%
Single-family & Semi	47	62	59	75	27.1%
Townhouse	5	21	15	20	33.3%
Condo Apartment	67	23	24	60	150.0%
Median New Home Price					
Single-family	\$299,925	\$349,900	\$399,000	\$415,000	4.0%
3 Bed. Townhouse	\$265,000	\$258,450	\$320,000	\$328,000	2.5%
2 Bed. Condo Apt	\$284,250	\$267,500	\$275,000	\$280,000	1.8%

RENTAL MARKET

Vacancy Rate (Oct.)	1.5%	1.1%	0.8%	1.9%
% Increase in apartment rents	2.5%	2.5%	3.0%	3.5%

ECONOMIC OVERVIEW

Mortgage Rate (3 yr.)	6.28%	5.82%	5.69%	6.45%
Employment Growth	1.5%	1.9%	3.2%	2.9%
Net Migration	2,030	2,200	2,450	2,500

F = CMHC Forecast

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